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APPENDIX A

Property Tax Relief

Schools are reimbursed by the State Property Tax Relief Fund for property exempted by Section 12-37-251(A) of the Code of Laws of South Carolina. The Department of Education will supply information from your audit to the Department of Revenue for review. You should review your LEA's compliance with this state law. Any exceptions to the law that are discovered during your audit should be included in *the* Schedule of Findings and Questioned Costs or in the Notes to Financial Statements as appropriate.

Section 12-37-251(A) provides a property tax exemption for certain property. Specifically, the law provides for a property tax exemption of \$100,000 based on the fair market value of property classified pursuant to Section 12-43-220(c) calculated on the school operating millage imposed for the tax year 1995 or the current school operating millage, whichever is lower. School districts are reimbursed on a per capita basis.

NOTE: For additional information concerning the computation of nonexempt millage,
contact: Sandy Houck
803-898-5478
houcks@sctax.org

South Carolina Public Charter Schools In Operation for Fiscal Year 2004–05

School Name	Grade Levels	District Sponsor	Date Opened	Contact	Phone
Bridgewater Academy	K–8	Horry	August 2003	Carol J. Merrill 316 Bush Drive Myrtle Beach, SC 29579	843-236-3689
Charles Aiken Academy	1–8	Greenville	January 1998	Glynda Taylor Caddell 10612 Augusta Rd. Belton, SC 29627	864-243-3443
Charleston Development Academy	K–4	Charleston	August 2003	Cecelia Rogers 233 Line Street P. O. Box 20518 Charleston, SC 29413	843-722-2689
Children’s Attention Home	K–8	Rock Hill 3	August 2004	Dr. Carey Harper Post Office Box 2912 Rock Hill, SC 29372	803-328-8871
Children’s School at Sylvia Circle	K3–5	York 3	August 2002	Kiersten Byrd 929 Sylvia Circle Rock Hill, SC 29730	803-981-1380
CHOICES	5–8	Darlington Florence 1	August 2002	Ralph Porter 1405 Poinsett Dr. Florence, SC 29505	843-664-8993
Discovery School of Lancaster County	K–5	Lancaster	August 2000	Thomas H. McDuffie 302 West Dunlap St. Lancaster, SC 29720	803-285-8430
East Cooper Montessori Charter School	1–3	Charleston	August 2003	Jody Swanigan 188 Civitas Street Mt. Pleasant, SC 29464	843-216-2883
Fox Creek High School	9–11	Edgefield	August 2004	John Gratop 805 Plantation Point Dr. North Augusta, SC 29860	803-613-9435
Greenville Technical Charter High School	9–12	Greenville	August 1999	W. Fred Crawford 506 Pleasantburg Drive PO Box 5616 Greenville, SC 29606	864-250-8845
James Island Charter High School	9–12	Charleston	August 2003	Dr. Nancy Gregory 1000 Fort Johnson Road Charleston, SC 29412	843-762-2754
Lloyd-Kennedy Charter School	5–8	Aiken	August 2002	Keisha Lloyd-Kennedy 363 Laurens St. P.O. Box 418 Aiken, SC 29802-0418	803-644-4824

APPENDIX B (Cont'd)

School Name	Grade Levels	District Sponsor	Date Opened	Contact	Phone
Loop Charter School	1–4	McCormick	August 1998	Eleanor Rice 615 Clayton St. McCormick, SC 29835	864-465-2292
McCormick Challenge Academy	9	McCormick	August 2001	Fred Moore 516 Mims Dr. McCormick, SC 29835	864-465-2302
Meyer Center for Special Children	preK–2	Greenville	August 1999	Louise Anthony 1132 Rutherford Rd. Greenville, SC 29609	864-250-0005 ext. 204
Midland Valley Preparatory School	K–7	Aiken	August 2002	Lilian Knight Thomas 2432 Jefferson Davis Hwy. Graniteville, SC 29829	803-594-1028
Midlands Math and Business Academy	4–8	Richland 1	August 2004	Michelle Spradley Post Office Box 6792 Columbia, SC 29260	803-799-5101
Palmetto Charter School	7–9	Greenville	August 2004	Stephanie Davis 2259 River Road Greenville, SC 29650	843-879-9292
Phoenix Charter High School	9–12	Clarendon 2	August 1999	Valeria Prince PO Box 170 Alcolu, SC 29001	803-505-6800
Richland One Middle College at Midlands Technical College	11–12	Richland 1	August 2004	Audrey Breland 316 S. Beltline Blvd. Columbia, SC 29205	803-738-7114
Wohali Academy	K5–10	Greenville	August 2004	Laura Blackmore One Havenwood Lane Post Office Box 1005 Travelers Rest, SC 29690	864-834-8013
Youth Academy Charter School	9–12	Williamsburg	October 1999	Anissa Capers PO Box 174 Kingstree, SC 29556	843-355-5424
YouthBuild Charleston Charter School	9–12	Charleston	August 2003	Thomas Suber 7555 North Spartan Blvd. N. Charleston, SC 29420	843-552-1474

Example of Subfund Listing Note Disclosure for Special Revenue Fund

ANYWHERE SCHOOL DISTRICT
YEAR ENDED JUNE 30, 2004

FEDERAL ADULT EDUCATION PROGRAMS

243 Adult Education—Federal

OTHER DESIGNATED STATE-RESTRICTED GRANTS

917 Preschool Programs for Children with Disabilities
919 Education License Plates
963 Homework Centers

OTHER SPECIAL REVENUE GRANTS

2xx Title I BD Project—Master Teachers
2xx Title I BF Project—Comprehensive School Reform
2xx Title I BG Project—Migrant
2xx Title I BJ Project—School Improvement
241 Promoting Informed Parental Choice and Innovative Programs, Title V
(84.298)(Carryover Provision)
242 Even Start Family Literacy
249 Learn and Serve America
256 Homeless Children State Grant
211 IDEA CR Project—Capacity Building
213 IDEA CO Project—Personnel Development
2xx ROTC
2xx Medicaid
8xx Immunization Program
8xx Foreign Language Exchange

Include appropriate subfund codes and program titles for all Adult Education Funds, Other Designated Restricted State grants, and Other Special Revenue grants included in the SDE-required Special Revenue Supplemental Statement.

Career and Technology Education Function and Subprogram Codes, 2004–05

Function Code	Subprogram	Program/Activity Title	Fund Source/Project Component Code
100/200	01	Integration	Perkins, Title I
100/200	02	STW Activities	Perkins, Title I
100/200	03	Technology Training	Perkins, Title I
200	04	Professional Development	Perkins, Title I
200	05	Evaluation/Assessment	Perkins, Title I
100/200	06	Initiate/Improve Program	Perkins, Title I
100/200	07	Tech Prep	Perkins, Title I
200	08	Career Guidance/Placement	Perkins, Title I
100/200	09	Special Populations	Perkins, Title I
100/200	10	Student Organizations	Perkins, Title I
100	11	Equipment	Perkins, Title I
100/200	12	Family and Consumer Science	Perkins, Title I
100	13	Adult Programs (LPN)	State Nursing & Perkins, Title I
100/200	14	Nontraditional Activities	Perkins, Title I
200	15	Administration	Perkins, Title I
100	16	Other Vocational Programs	Local
100/200	17	Nurses Aide	State
100/200	18	TP/STW Activities	State Special Revenue
100	19	Equipment (State)	EIA/State Special Revenue
200	20	HSTW	Lottery
200	21	Teacher Education	Perkins, Leadership
200	22	SC Teacher Recruitment	Perkins, Leadership
100/200	24	Nontraditional Program (Leadership)	Perkins, Leadership
200	25	V-TECS	Perkins, Leadership

APPENDIX D (Cont'd)

Function Code	Subprogram	Program/Activity Title	Fund Source/Project Component Code
200	26	AYES	Perkins, Leadership
200	27	State Bd for Tech-Administration	Perkins, Administration
200	29	EXPO	Federal STW
200	30	Teacher Recruitment	Federal STW
100/200/300	31	School-Based Learning	Federal STW
100/200/300	32	Work-Based Learning	Federal STW
100/200/300	33	Connecting Activities	Federal STW
200	34	STW Administration	Federal STW
200	35	Schools of Excellence	Federal STW
200	36	Business Week	Perkins, Leadership
200	37	Federal STW	Federal STW
100/200	38	CTE Technology Initiative	State
200	39	Administrators Institute	Perkins, Leadership
100/200	40	State Institutions	Perkins, Leadership
200	41	Gender Equity	Perkins, Administration
200	42	FFA Camp Caretaker	Perkins, Leadership
200	43	Agriculture Education, Teacher Education	Perkins, Leadership
200	44	Student Organization Administration	Perkins, Leadership
200	45	HSTW Projects	Perkins, Leadership
200	46	Bell South	State
200	47	SC Career Planning System	Perkins, Leadership
200	48	State Leadership Special Projects	Perkins, Leadership
200	49	STW Transition Funding	Federal STW
200	50	STW Admin. Transition Funding	Federal STW

APPENDIX D (Cont'd)

Function Code	Subprogram	Program/Activity Title	Fund Source/Project Component Code
200	51	Prepare CTE Teachers for Classroom	Perkins, Leadership & Transition to Teaching Grant
100/200	52	Workforce Dev Inc Grant	WIA Incentive Grant
200	53	Workforce Dev. Inc. Grant- Admin	WIA Incentive Grant
200	60	TP Institutes	Perkins, Title I
200	61	STW Career Special	EIA
200	62	STW Staff Development	EIA
100/200	70	Curriculum Instruction II	Perkins, Title II
200	71	Administration II	Perkins, Title II
200	72	Technical Assistance II	Perkins, Title II
200	73	Accountability II	Perkins, Title II
200	74	Guidance II	Perkins, Title II
200	75	Staff Development II	Perkins, Title II
200	76	Equal Access II	Perkins, Title II
100/200	77	Preparatory Services II	Perkins, Title II
200	78	Tech Prep Competitive	Perkins, Title II

Internet Sites

SOUTH CAROLINA DEPARTMENT OF EDUCATION

- Home Page
<http://www.myschools.com>
- Accounting and Auditing Information (“School Business, Finance, and Auditing” link)
<http://www.myschools.com/tracks/business/>

OMB (OFFICE OF MANAGEMENT AND BUDGET)

- Home Page
<http://www.whitehouse.gov/omb/>
- A-133 Circular and Data Collection Form
<http://www.whitehouse.gov/OMB/circulars/a133/a133.html>
- Compliance Supplement (2005)
http://www.whitehouse.gov/omb/financial/2005_compliance/_supp.html

FEDERAL REGISTER SUBMISSIONS

- Federal Register Announcements
<http://www.ed.gov/fedregister/announce/index.html>

CFDA (CATALOG OF FEDERAL DOMESTIC ASSISTANCE)

- Main Menu
<http://www.cfda.gov/>

APPENDIX E (Cont'd)

U.S. DEPARTMENT OF EDUCATION AUDIT GUIDANCE

- Nonfederal Audit Team Homepage
<http://www.ed.gov/about/offices/list/oig/nonfed/nteam.html>

INSPECTORS GENERAL

- Site Map
<http://www.ignet.gov/map.html>
- Single Audit Library
<http://www.ignet.gov/single/mains.html>
- Single Audit Act Amendments of 1996
<http://www.ignet.gov/single/saamend.html>

AICPA (AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS)

- Home Page
<http://www.aicpa.org/>

THOMPSON PUBLISHING GROUP

- Home Page
<http://207.226.10.52/tpg/index.html>

GOVERNMENT AUDITING STANDARDS (THE “YELLOW BOOK”)

- Home Page
<http://www.gao.gov>

Select the “Other Publications” link; then select “Complete Listing” and find *Government Audit Standards* in the alphabetical list.

Release Authorization for School District Data

Ms. Susan Flanagan
Project Accounting Section
Office of Finance
South Carolina Department of Education
1429 Senate Street, Room 307
Columbia, South Carolina 29201

ATTENTION: Payment to Counties

The South Carolina Department of Education is authorized to provide copies of the “Payments to Counties” and “Project Accounting Masters” for FY 2004–05 and any subsequent updates relating to funding that may be made available to the certified public accounting firm listed below.

All items below must be completed.

Name of CPA contact: _____ E-mail: _____

Name of CPA firm: _____

Street address: _____ City: _____

State and zip: _____ Phone: _____

This information is to be provided for the purpose of the annual audit of the school district’s financial records as prescribed by the Defined Program for South Carolina School Districts, the Single Audit Act of 1984, and the Single Audit Act Amendments of 1996.

Please send this material directly to the independent auditors shown above.

Superintendent/representative’s name (Please print.)

District name

Superintendent/representative’s signature

Date

Dear Personnel Administrators:

Proviso 1.22 of the FY 2004-2005 Appropriations Act defines the criteria for the hiring of retired individuals who desire to be exempted from the earnings limitation of the South Carolina Retirement Systems (SCRS). It also requires that administrative positions requiring teacher or administrator certification be filled by individuals receiving a W-2. Proviso 1A.50 has amended the definition of critical geographic area and school, so there will be fewer schools that qualify as a critical geographic area.

The basic criteria for hiring a retiree are as follows:

1. The individual must be a certified teacher who is teaching in the classroom or serving as a guidance counselor in his or her area of certification in a critical subject area or critical geographic school.
2. A district that has received a below average or unsatisfactory academic performance rating on the report card may employ certified retired individuals.
3. Retired certified individuals may only be hired to fill administrative positions requiring administrator certification in a critical needs district or school on an emergency basis for a period not to exceed twelve months if the vacancy was not created by their retirement. An explanation of the emergency must be attached to the assurance form.
4. The district must certify that no qualified nonretired certified individual is available for employment in the position and cannot consider a retiree for employment before May 31.

Attached is the assurance form to be completed and submitted to the Department of Education. When the form is approved, a copy will be sent to the SCRS and school district. A list of the critical subject areas and critical geographic can be reviewed on the website of the South Carolina Student Loan Corporation at www.slc.sc.edu. The list of geographic schools will be updated soon based on the new definition. Please make sure a school qualifies under the new definition as a critical geographic school.

The assurance form is only needed for those individuals who want an exemption from the earnings limitation. Teachers who do not want an exemption can be processed through your district personnel policies.

If you have any questions, please call me at (803) 734-8123 or email me at ewhitten@sde.state.sc.us.

APPENDIX G (Cont'd)

ASSURANCE FORM for Meeting the Requirements to Employ Retired Individuals Pursuant to S.C. Code Ann. § 9-1-1795 (Supp. 2000); Proviso 1.22, FY05 Appropriation Act		RETURN THE COMPLETED FORM TO John K. Cooley, Deputy Superintendent Division of Finance and Operations State Department of Education 1429 Senate Street, Room 308 Columbia, South Carolina 29201
SCHOOL YEAR 2004–05		
DISTRICT AND APPLICANT INFORMATION		
District: _____ Applicant's name: _____ Social Security number: _____ Assigned to a school: <input type="checkbox"/> yes <input type="checkbox"/> no School assignment: _____		Does the applicant hold a valid certificate? <input type="checkbox"/> yes <input type="checkbox"/> no Certificate # _____ Validity date: _____ Area(s) of certification:
POSITION INFORMATION		CRITICAL NEEDS QUALIFICATIONS
Position type: <input type="checkbox"/> Teacher <input type="checkbox"/> *Administrator Subject taught or position title: Is this position in the teacher's area of certification? <input type="checkbox"/> yes <input type="checkbox"/> no Has this position been advertised? <input type="checkbox"/> yes <input type="checkbox"/> no Were there any qualified, nonretired applicants willing to accept the position? <input type="checkbox"/> yes <input type="checkbox"/> no *For administrative positions a letter of justification explaining the situation and basis for the emergency is attached. <input type="checkbox"/> yes <input type="checkbox"/> no		Is the position a critical academic need area? <input type="checkbox"/> yes <input type="checkbox"/> no If yes, specify the area: OR Is the school/district located in a critical geographic need area? <input type="checkbox"/> yes <input type="checkbox"/> no If yes, specify the area:
AUTHORIZATION		
As an authorized representative of the above-named district, I certify that the information provided above is true and accurate and that no employment decision with regard to the above-named individual was made before May 31, 2004.		
District representative (please type or print name):		Signature of district representative:
Title/position:		Date signed:
STATE DEPARTMENT OF EDUCATION USE ONLY		
From the information provided above, the hiring of this individual meets the requirements of S.C. Code Ann. § 9-1-1795 (Supp. 2001)		
_____ John K. Cooley, Deputy Superintendent		_____ Date

After this form has been approved, the State Department of Education will submit copies to the State Retirement System, the school district, and the State Board of Education.

APPENDIX H

Food Service Employer Contributions

General Appropriation Act, 1999 S.C. Acts 100

Proviso 1.6

(SDE: Employer Contributions/Allocations) It is the intent of the General Assembly that the appropriation contained herein for “Public School Employee Benefits” shall not be utilized to provide employer contributions for any portion of a school district employee’s salary which is federally funded.

State funds allocated for school district employer contributions must be allocated by the formula and must be used first by each district to cover the cost of fringe benefits for personnel required by the Defined Program, food service personnel and other personnel required by law. Once a district has expended all state allocated funds for fringe benefits, the district may utilize food service revenues to fund a proportionate share of fringe benefits costs for food service personnel.



Charlie G. Williams
State Superintendent of Education

STATE OF SOUTH CAROLINA
DEPARTMENT OF EDUCATION
COLUMBIA 29201

June 30, 1989

MEMORANDUM NO.: 23

TO: County and District Superintendents of Schools
County and District School Food Service Supervisors/Directors

FROM: *VB* Vivian B. Pilant, Director
Office of School Food Services

SUBJECT: The 1989-90 Appropriations Act

The 1989-90 Appropriations Act addressed five areas in School Food Services - School Lunch Supervisors (Provisos 28.3 and 28.4), Fringe Benefits (Proviso 28.9), School Lunch Program Aid (Proviso 28.18), Nutritional Policies for Foods Available to Students (Proviso 28.100) and School Breakfast (Permanent Proviso, Section 57). The first four areas were contained in Part I Provisos (Temporary) while School Breakfast was addressed in Part II Provisos (Permanent).

This information is being provided for your planning purposes.

PART I PROVISOS (TEMPORARY)
H63-Section 28

- 28.3 The amount appropriated in this section for County School Lunch Supervisors shall be used for the payment of salaries of one supervisor for each county at the rate of \$12,905 each per year and no such salary shall be supplemented from funds provided in this section for "School Lunch Program Aid". In the absence of a County Board of Education or with the approval of the County Board of Education in multi-district counties, the salary shall be proportionately distributed among the districts of the county on the basis of the 135 average daily membership of the prior year, provided that such funds must be used for the supervision of the School Food Service Program.
- 28.4 For the Fiscal Year 1989-90 the local supplement to salaries of county School Lunch Supervisors and School Attendance Supervisors shall not be reduced below the supplements paid in 1988-89.

APPENDIX I (Cont'd)

MEMORANDUM NO. 23

June 30, 1989

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- 28.9 Funds contained herein for school district employer contributions must be allocated by a formula based on the number weighted pupil units in each district and must be used first by each district to cover the cost of fringe benefits for personnel required by the Defined Minimum Program, food service personnel and other personnel required by law. Once a district has expended all state allocated funds for fringe benefits, the district may utilize food service revenues to fund a proportionate share of fringe benefits costs for food service personnel.
- 28.18 The amount appropriated herein for School Lunch Program Aid shall be divided among the County Boards of Education of the State upon the basis of the number of schools participating in the School Lunch Program in each county during the school year 1988-89. The travel expenses of the County School Lunch Supervisor shall be paid from this appropriation at the prevailing rate of mileage allowed by the State. These funds may be used as an aid in improving the School Lunch Program. In the absence of a County Board of Education in multi-district counties, the funds will be divided among the school districts of the county on the basis of the number of schools participating in the School Lunch Program in each district during the school year 1988-89.
- 28.100 The State Board of Education shall develop nutritional policies for foods available to students during the school day based on the United States Dietary Guidelines for Americans and the nutritional requirements of the National Child Nutrition Program and local school districts and school food service programs are urged to adopt the nutrition policy of the State Board of Education.

PART II PROVISOS (PERMANENT)

Document Number 5302U

SECTION 57

The 1976 Code is amended by adding:

"Section 59-63-765. If a school has at least a forty percent enrollment receiving free or reduced priced lunches, the school district may implement in that school a nutritional, well-balanced school breakfast program if federal funds are available to cover the entire cost of the program and if no additional personnel are required to implement the program."

Provisos 28.3, 28.4 (Supervisors Salary), and 28.18 (School Lunch Program Aid) are essentially the same as previous years. The salary is \$12,905 FY 89-90. You will be notified of the Program Aid amount for your district later in the summer.

Proviso 28.9 on fringe benefits is a change with the additional sentence regarding the use of food service revenues to fund a proportionate share of fringe benefits costs for food service personnel once a district has expended all state allocated funds for fringe benefits. Enclosed with this memo is guidance on how to calculate the fringe benefits for food service personnel based on this proviso.

APPENDIX I (Cont'd)

MEMORANDUM NO. 23

June 30, 1989

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Essentially, once the district has determined the percentage of the shortfall in fringe benefits for the personnel specified in the proviso then the percentage of the shortfall can be applied to school food service employees and paid out of the food service fund.

Proviso 28.100 on Nutritional Policies - This office will keep you informed of State Board of Education actions pertaining to nutritional policies for foods available to students.

School Breakfast - This office will provide to districts a list of schools in their district with forty percent enrollment receiving free or reduced price lunches which meet the criteria specified in Section 59-63-765 of the 1976 Code.

Since this category essentially meets the Federal Breakfast Regulations 7 CFR 220 definition of Severe Need Schools, districts will be eligible for additional reimbursement for breakfasts served in their schools providing they have costs in excess of the regular reimbursement rates. The 1989-90 reimbursement rates for lunch and breakfast will be forwarded to districts in early July. Additional information on the breakfast program is addressed in Memorandum No. 22, dated June 28, 1989, and will also be discussed at the July 31, 1989 statewide meeting.

APPENDIX I (Cont'd)

**GUIDELINES FOR FY 1989-90 USE OF
SCHOOL FOOD SERVICE FUNDS FOR FRINGE BENEFITS**

Guidelines have been established for Fiscal Year 1989-90 governing the use of School Food Service funds to pay fringe benefits when the school district's state fringe benefits allocation is exhausted. These guidelines are as follows:

1. When the State allocation is adequate to cover all fringe benefits monthly or annually, no charges will be made to the Food Service Fund.
2. When the State allocation is inadequate to cover all fringe benefits and a shortfall results, districts may charge a portion of food service fringe benefits to the Food Service Fund. Charges to the Food Service Fund may be made on a quarterly basis using the same proportional basis as calculated in the formula below. An adjusting year end entry may be necessary.

EXAMPLE SCHOOL DISTRICT X

**CALCULATION OF RATIO OF SCHOOL FOOD SERVICE SALARIES TO TOTAL
GENERAL FUND SALARIES**

- | | | |
|--|------------|---------|
| 1. <u>School Food Service Salaries</u> | 990,000 | |
| General Fund Salaries and School Food Service Salaries | 24,900,000 | = 3.98% |

CALCULATION OF TOTAL FRINGE BENEFIT SHORTFALL WITH EXCLUSIONS

- | | | |
|---|-------------------|--|
| 2. Total current expenditures for Fringe | \$3,750,000 | |
| Benefits for District (excluding special revenue programs and E.I.A.) | | |
| State Allocation | -\$2,900,000 | |
| Total District Shortfall for Fringe Benefits | <u>\$ 850,000</u> | |

**CALCULATION OF MAXIMUM SHORTFALL TO BE CHARGED TO SCHOOL FOOD
SERVICE**

- | | | |
|--|------------------|--|
| 3. Total District Shortfall for Fringe Benefits | \$850,000 | |
| School Food Service Salaries to General Fund Salaries | X 3.98% | |
| Maximum amount that can be charged to School Food Service Fund | <u>\$ 33,830</u> | |



STATE OF SOUTH CAROLINA
DEPARTMENT OF EDUCATION

INEZ MOORE TENENBAUM
STATE SUPERINTENDENT OF EDUCATION

MEMORANDUM NO.: 15

TO: School District Superintendents, Business Managers and Associate Superintendents, and School Food Service Directors

FROM: Henry R. Sweatman, Jr., Director *HRS*
Office of District Auditing and Field Services

Vivian B. Pilant, MS, RD, Director *VBP*
Office of School Food Services and Nutrition

DATE: April 15, 2002

RE: Certification and Clarification of Indirect Cost Rate and Allocation Plan for School Food Service Program

Enclosed are the two documents that provide the requirements and guidance on the State's establishment and application of the indirect cost rate for the school food service program. The first is the South Carolina State Department of Education Indirect Cost FY 2001-02 General Information plan document that includes references to the Office of Management and Budget Circular A-87. The second document is Attachment C from OMB Circular No. A-87 that outlines State/Local-Wide Central Service Cost Allocation Plans.

We want to bring to your attention page 43 of the Circular-87 attachment and the section on certification of the allocation plan. For the coming year, this certification will be added to the district's rate formula submission for all types of indirect costs. Please note the statement prior to the signature section, "Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently." For example, it is not permissible to place meters in the school cafeterias for payment of electricity by food service when energy costs have been included in the indirect cost rate. In the same manner, school districts may not require food service to pay any direct costs for maintenance (including services provided by outside vendors) when maintenance and operations have been included in the computation of the indirect cost rate for food service.

In the future, this area of cost allocation and inclusion or exclusion from the indirect cost rate computation will be closely monitored through the single audit function. If the indirect cost rate is properly computed by including only those items that are not in any manner direct costs to food service, the appropriate application of the rate to "food service labor" and "purchased services" categories should not be a duplicated cost to the school food service program.

VBP/MJC:ksm
Enclosures

1429 SENATE STREET COLUMBIA, SOUTH CAROLINA 29201 803-734-8492 FAX 803-734-3389 www.state.sc.us/sde

APPENDIX J (Cont'd)

ATTACHMENT C
Circular No. A-87

STATE/LOCAL-WIDE CENTRAL SERVICE COST ALLOCATION PLANS

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A. General.

1 Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since

federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

2. Guidelines and illustrations of central service cost allocation plans are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government." A copy of this brochure may be obtained from the Superintendent of Documents, U.S. Government Printing Office.

B. Definitions.

1. "Billed central services" means central services that are billed to benefitted agencies and/or programs on an individual fee-for-service or similar basis. Typical examples of billed central services include computer services, transportation services, insurance, and fringe benefits.

2. "Allocated central services" means central services that benefit operating agencies but are not billed to the agencies on a fee-for-service or similar basis. These costs are allocated to benefitted agencies on some reasonable basis. Examples of such services might include general accounting, personnel administration, purchasing, etc.

3. "Agency or operating agency" means an organizational unit or sub-division within a governmental unit that is responsible for the performance or administration of awards or activities of the governmental unit.

C. Scope of the Central Service Cost Allocation Plans. The central service cost allocation plan will include all central service costs that will be claimed (either as a billed or an allocated cost) under Federal awards and will be documented as described in section E. Costs of central services omitted from the plan will not be reimbursed.

D. Submission Requirements.

1. Each State will submit a plan to the Department of Health and Human Services for each year in which it claims central service costs under Federal awards. The plan should include (a) a projection of the next year's allocated central service cost (based either on actual costs for the most recently completed year or the budget projection for the coming year), and (b) a reconciliation of actual allocated central service costs to the estimated costs used for either the

APPENDIX J (Cont'd)

most recently completed year or the year immediately preceding the most recently completed year.

2. Each local government that has been designated as a "major local government" by the Office of Management and Budget (OMB) is also required to submit a plan to its cognizant agency annually. OMB periodically lists major local governments in the Federal Register.

3. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this Circular and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating indirect cost rates and/or monitoring the sub-recipient's plan.

4. All central service cost allocation plans will be prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency on a case-by-case basis.

E. Documentation Requirements for Submitted Plans. The documentation requirements described in this section may be modified, expanded, or reduced by the cognizant agency on a case-by-case basis. For example, the requirements may be reduced for those central services which have little or no impact on Federal awards. Conversely, if a review of a plan indicates that certain additional information is needed, and will likely be needed in future years, it may be routinely requested in future plan submissions. Items marked with an asterisk (*) should be submitted only once; subsequent plans should merely indicate any changes since the last plan.

1. General. All proposed plans must be accompanied by the following: an organization chart sufficiently detailed to show operations including the central service activities of the State/local government whether or not they are shown as benefiting from central service functions; a copy of the Comprehensive Annual Financial Report (or a copy of the Executive Budget if budgeted costs are being proposed) to support the allowable costs of each central service activity included in the plan; and, a certification (see subsection 4.) that the plan was prepared in accordance with this Circular, contains only allowable costs, and was prepared in a manner that treated similar costs consistently among the various Federal awards and between Federal and non-Federal awards/activities.

2. Allocated central services. For each allocated central service, the plan must also include the following: a brief description of the service, an identification of the unit rendering the service and the operating agencies receiving the service, the items of expense included in the cost of the service, the method used to distribute the cost of the service to benefitted agencies, and a summary schedule showing the allocation of each service to the specific benefitted

agencies. If any self-insurance funds or fringe benefits costs are treated as allocated (rather than billed) central services, documentation discussed in subsections 3.b. and c. shall also be included.

3. Billed services.

a. General. The information described below shall be provided for all billed central services, including internal service funds, self-insurance funds, and fringe benefit funds.

b. Internal service funds.

(1) For each internal service fund or similar activity with an operating budget of \$5 million or more, the plan shall include: a brief description of each service; a balance sheet for each fund based on individual accounts contained in the governmental unit's accounting system; a revenue/expenses statement, with revenues broken out by source, e.g., regular billings, interest earned, etc.; a listing of all non-operating transfers (as defined by Generally Accepted Accounting Principles (GAAP)) into and out of the fund; a description of the procedures (methodology) used to charge the costs of each service to users, including how billing rates are determined; a schedule of current rates; and, a schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service, as determined under this Circular, with an explanation of how variances will be handled.

(2) Revenues shall consist of all revenues generated by the service, including unbilled and uncollected revenues. If some users were not billed for the services (or were not billed at the full rate for that class of users), a schedule showing the full imputed revenues associated with these users shall be provided. Expenses shall be broken out by object cost categories (e.g., salaries, supplies, etc.).

c. Self-insurance funds. For each self-insurance fund, the plan shall include: the fund balance sheet; a statement of revenue and expenses including a summary of billings and claims paid by agency; a listing of all non-operating transfers into and out of the fund; the type(s) of risk(s) covered by the fund (e.g., automobile liability, workers' compensation, etc.); an explanation of how the level of fund contributions are determined, including a copy of the current actuarial report (with the actuarial assumptions used) if the contributions are determined on an actuarial basis; and, a description of the procedures used to charge or allocate fund contributions to benefitted activities. Reserve levels in excess of claims (1) submitted and adjudicated but not paid, (2) submitted but not adjudicated, and (3) incurred but not submitted must be identified and explained.

d. Fringe benefits. For fringe benefit costs, the plan shall include: a listing of fringe benefits provided to covered employees, and the overall annual cost of each type of benefit; current fringe benefit policies*; and procedures used to charge or allocate the costs of the benefits to benefitted activities. In addition, for pension and post-retirement health insurance plans, the following information shall be provided: the governmental unit's funding policies, e.g.,

legislative bills, trust agreements, or State-mandated contribution rules, if different from actuarially determined rates; the pension plan's costs accrued for the year; the amount funded, and date(s) of funding; a copy of the current actuarial report (including the actuarial assumptions); the plan trustee's report; and, a schedule from the activity showing the value of the interest cost associated with late funding.

4. Required certification. Each central service cost allocation plan will be accompanied by a certification in the following form:

CERTIFICATE OF COST ALLOCATION PLAN

This is to certify that I have reviewed the cost allocation plan submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish cost allocations or billings for [identify period covered by plan] are allowable in accordance with the requirements of OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," and the Federal award(s) to which they apply. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the awards to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently.

I declare that the foregoing is true and correct.

Governmental Unit: _____

Signature: _____

Name of Official: _____

Title: _____

Date of Execution: _____

F. Negotiation and Approval of Central Service Plans.

1. All proposed central service cost allocation plans that are required to be submitted will be reviewed, negotiated, and approved by the Federal cognizant agency on a timely basis.

The cognizant agency will review the proposal within six months of receipt of the proposal and either negotiate/approve the proposal or advise the governmental unit of the additional documentation needed to support/evaluate the proposed plan or the changes required to make the proposal acceptable. Once an agreement with the governmental unit has been reached, the agreement will be accepted and used by all Federal agencies, unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special consideration, the funding agency will, prior to the time the plans are negotiated, notify the cognizant agency.

2. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The results of the negotiation shall be made available to all Federal agencies for their use.

3. Negotiated cost allocation plans based on a proposal later found to have included costs that: (a) are unallowable (i) as specified by law or regulation, (ii) as identified in Attachment B of this Circular, or (iii) by the terms and conditions of Federal awards, or (b) are unallowable because they are clearly not allocable to Federal awards, shall be adjusted, or a refund shall be made at the option of the Federal cognizant agency. These adjustments or refunds are designed to correct the plans and do not constitute a reopening of the negotiation.

G. Other Policies.

1. Billed central service activities. Each billed central service activity must separately account for all revenues (including imputed revenues) generated by the service, expenses incurred to furnish the service, and profit/loss.

2. Working capital reserves. Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.

3. Carry-forward adjustments of allocated central service costs. Allocated central service costs are usually negotiated and approved for a future fiscal year on a "fixed with carry-forward" basis. Under this procedure, the fixed amounts for the future year covered by agreement are not subject to adjustment for that year. However, when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed amounts established for a later year. This "carry-forward" procedure applies to all central services whose costs were

APPENDIX J (Cont'd)

fixed in the approved plan. However, a carry-forward adjustment is not permitted, for a central service activity that was not included in the approved plan, or for unallowable costs that must be reimbursed immediately.

4. Adjustments of billed central services. Billing rates used to charge Federal awards shall be based on the estimated costs of providing the services, including an estimate of the allocable central service costs. A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following adjustment methods: (a) a cash refund to the Federal Government for the Federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (Federal share and non-Federal) share exceeds \$500,000.

5. Records retention. All central service cost allocation plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

6. Appeals. If a dispute arises in the negotiation of a plan between the cognizant agency and the governmental unit, the dispute shall be resolved in accordance with the appeals procedures of the cognizant agency.

7. OMB assistance. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.



Dr. Barbara S. Nielsen
State Superintendent of Education

STATE OF SOUTH CAROLINA
DEPARTMENT OF EDUCATION

COLUMBIA 29201

April 5, 1991

MEMORANDUM NO.: 19

TO: School Business Officials
County and District Superintendents of Schools
County and District School Food Service Supervisors/Directors

FROM: *WBP* Vivian B. Pilant, Director
Office of School Food Services

SUBJECT: 1. Misuse of School Food Service Funds
2. Interest Earned on School Food Service Funds

1. Recent reviews have disclosed situations in which local school districts have misused program funds. Specifically funds were being utilized for non-program purposes in direct violation of 7 Code of Federal Regulations, Part 210.14 (a) that states "Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service..." According to U. S. Department of Agriculture (USDA) school districts who are determined to be in violation of this regulation will have reimbursement suspended pending the resolution and restitution of the amount due.

Whereas this policy does not prohibit the district from making an internal loan, the attached Policy Memorandum 87-6 from U. S. Department of Agriculture outlines the conditions that must be met, before and after, if loans are made from school food service funds.

2. Another situation that requires clarification is that of interest earned on school food service funds. According to USDA, Policy Memorandum 88-4, any interest earned on school food service funds, children's lunch payments and program reimbursement must be credited to the school food service fund and used only for program purposes.

USDA funds for program reimbursement must be entered into the school food service fund as soon as possible on receipt. If program reimbursement funds are held in a different fund, (such as a district's general fund) before placing it into the school food service fund, any interest on this USDA revenue must also be credited to the school food service fund. This policy regarding loans and interest earned on school food service funds is included in the compliance requirements of the annual Single Audit Guidelines issued by the Department of Education.

DRAFT

APPENDIX K (Cont'd)



United States
Department of
Agriculture

Food and
Nutrition
Service

Southeast
Region

1100 Spring St. NW.
Atlanta, GA 30367

Reply to

Attn. of: SESN-211

Policy Memorandum 88-4
Subject: Interest Earned on School Food Service Funds

OFFICE FEB 10 1988
SCHOOL FOOD SERVICES

FEB 16 1988

RECEIVED

To: State Child Nutrition Directors
State Food Distribution Directors

According to Policy Memorandum 80-32, any interest earned on school food service funds, children's lunch payments and program reimbursement must be credited to the school food service account and used only for program purposes.

USDA funds for program reimbursement must be entered into the school food service account as soon as possible on receipt. If program reimbursement funds are held in a different account, (such as a county's general fund) before placing it into the school food service account, any interest on this USDA revenue must also be credited to the school food service account.

If you have any questions, please call the Policy and Procedures Section at (404) 347-7802.

CHARLES C. KIRBY
Regional Director
Special Nutrition Programs



United States Department of Agriculture
Food and Nutrition Service

Southeast Region

Reply to
Attn. of: SA 9-1-General

Subject: NSLP Policy 210.19-02: Use of Revenues Generated by the Food Service Account

To: All State Child Nutrition Directors
Southeast Region

We received an inquiry from a State Director requesting a statement of the Food and Nutrition Service's (FNS) position on whether or not revenues generated by the sale of competitive foods by the school food service can be available for uses other than the school food service. According to the State Director's letter, some schools contend that the language in 7 CFR 210.11(b) permits revenue from competitive food sales to be made available to entities in the school other than the food service even if the foods are provided through the school food service. It is the State Director's position that 7 CFR 210.14 expressly prohibits revenue from the food service account to be used for any purpose other than the food service and that this prohibition extends to revenue generated by the school food service's sale of competitive foods.

The 7 CFR 210.14(a) stipulates that revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service.... There are no exceptions to this requirement. If the food service account is used to purchase and provide foods sold in competition with the reimbursable meal service, all of the revenue from these sales must accrue to the food service account. It also should be noted that this requirement extends to any foods provided through the food service account, regardless of where they may be sold. For example, if vending machines outside of the food service area are stocked using funds from the food service account, the proceeds from those vending machines must return to the food service account and only to the food service account.

This position is underscored by 7 CFR 210.19(a)(2), which stipulates the actions a school food authority (SFA) must take if the monies in the food service account exceed a three month operating balance (the definition of nonprofit food service account). The options available to SFAs in these situations are (1) to reduce the price children are charged for meals, (2) to improve food quality and (3) take other action designed to improve the nonprofit school food service. Making excess funds available to the general school fund or to other school organizations is not an approved option.

APPENDIX L (Cont'd)

State Directors

Page 2

The purpose of these restrictions is to ensure that the food service is able to provide school meals that are nutritious, appealing and affordable for children, and 7 CFR 210.11(b) must be viewed in this context. Had FNS intended to except revenues from competitive foods from these requirements, this exception would have been specified in the regulation.

The intent of 7 CFR 210.11(b) is to limit the organizations that may receive revenue from the sale of competitive foods. Essentially, this regulation prohibits profit making entities or other organizations not connected with the school from benefiting from the sale of competitive foods in the food service area. Only operations and organizations that are a part of the school may benefit from these sales, and then only to the extent that they operate the competitive food service themselves.

Therefore, the food service account would generally be the principal beneficiary from sales of competitive foods, since these foods are normally provided through the food service account. However, the regulation does permit other approved school organizations to sell competitive foods in the cafeteria or elsewhere and to receive the revenues from these sales. If, for example, the principal maintains a vending machine that dispenses juices or other non-prohibited competitive foods, the revenue from that machine could accrue to the principal's general fund or to other school operations designated by the principal. These revenues would not have to be placed in the food service account. Also, if a student organization or the PTA were to operate a bake sale, the revenues would be used for the benefit of the school or the student organization.

We hope this memorandum clarifies the relationship of competitive food revenues to the food service account. Should you have any questions, please contact our office.

CHARLIE SIMMONS
Regional Director
Special Nutrition Programs



United States Department of Agriculture
Food and Nutrition Service

OFFICE

SCHOOL Southeast Region

Reply to
Attn. of: SA 9-1

MAI 19 1999

DEC 28 1998

KL -

Subject: Policy 210.14-02: Use of School Food Service Funds

To: All State NSLP Directors
Southeast Region

This memorandum reissues policy previously released as NSLP/SBP/SMP Policy memorandum 83-2, dated February 16, 1983; Policy memorandum 84-1 dated November 30, 1983, and Policy memorandum 97-10, dated January 30, 1997. Any changes to the original memoranda are in bold.

Improvement of Facilities

As stated in 7CFR 210.19(a)(2), each SA is responsible for establishing a financial management system which will prescribe the approval of nonprofit food service expenditures. Except for the purchase of land and buildings, the SA retains primary responsibility for determining whether a capital project expenditure is considered an allowable cost. Also, the SA is usually better able to assess an SFA's operational needs than the Regional Office (RO).

There have been some questions concerning the distinction between construction of a building and improvement of facilities, as in the case of an addition to the kitchen or dining area. Our general rule of thumb is that construction activities which increase the square footage of a building constitute the construction of a building, while renovations or improvements to a structure which do not increase its size would be an improvement of facilities. In the case above, nonprofit school food service revenues could not be used to add a kitchen or a dining area to an existing building; they could, however, be used to convert existing space in the building into a kitchen or a dining area.

Another question which has been posed is regarding the installation of air conditioning in school food service (SFS) facilities, specifically in the kitchen area. The addition of air conditioning to SFS facilities not currently air conditioned or the replacement of air conditioning systems in SFS facilities is currently permitted under FNS Regulations since this could be described as an improvement.

APPENDIX L (Cont'd)

State NSLP Directors

Page 2

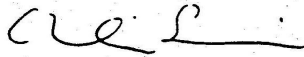
Regarding the use of SFS funds to install air conditioners in new school construction, the appropriate office of Management and Budget (OMB) Circular should be referenced when determining whether an expenditure is allowable. For example, Section C.1 of OMB Circular A-87 would be used for the purpose of determining allowable costs for State and local governments. Occasionally, a capital expenditure benefits more than just school food service. The SA must ensure that the capital project is prorated on an appropriate cost allocation basis (e.g., square footage, etc.). Any costs charged to or paid by the nonprofit school food service must be based on actual service or benefit to the nonprofit food service operation. Expenditures associated with the use of buildings, capital improvements, and equipment may be expended against the school food service account through a use allowance or depreciation.

The intent of the regulations is to provide greater flexibility in the use of funds to protect and improve the quality of food service delivery. Administering agencies will have to exercise their own judgment in evaluating individual cases.

Salaries

An employee's full salary may be charged to or paid by the nonprofit school food service only if that employee works full-time for the nonprofit school food service. If an employee performs part-time or occasional work for the nonprofit school food service, only the cost of that part-time or occasional work may be charged to the nonprofit school food service. For example, a full-time clerical or accounting employee may work only one hour a week for the nonprofit food service completing forms or verifying records; in this case, nonprofit school food service revenues may only pay for one hour of the employee's salary each week. OMB Circular A-87 requires school food authorities to document that nonprofit school food service revenues are used appropriately. Payrolls must be supported by time and attendance records for the individual. Salaries chargeable to more than one program shall be supported by appropriate time distribution records.

Should your staff have any questions regarding this matter, please have them contact our office.



CHARLIE SIMMONS
Regional Director
Special Nutrition Programs

DRAFT

APPENDIX L (Cont'd)



United States Department of Agriculture
Food and Nutrition Service

OFFICE OF
SCHOOL
Southeast Region

MAR 19 1999

Reply to
Attn. of: SA 9-1

1 MAR 1999

RECEIVED

Subject: 210.14-05: Misuse of Program Funds

To: All State Directors:
National School Lunch Program (NSLP)
Southeast Region

This memorandum was originally issued as Policy Memorandum 87-6, on March 31, 1987. Any changes made to the original memo are in bold.

Recent reviews have disclosed a number of situations in which School Food Authorities (SFA's) have misused program funds. Specifically, funds were being utilized for non-program purposes in direct violation of Part 210.14 (a) that states "Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service...."

This policy does not prohibit the SFA from making an internal loan of school food service (SFS) funds for use in other school system operations, **but such loans must be recovered by SFS. The SFS may, at its option charge interest for the duration of the loan.**

Should your staff have any questions regarding this matter, please have them contact this office.

A handwritten signature in dark ink, appearing to read "C. Simmons".

CHARLIE SIMMONS
Regional Director
Special Nutrition Programs

DRAFT

APPENDIX L (Cont'd)



United States Department of Agriculture
Food and Nutrition Service

OFFICE OF
SCHOOL FOOD SERVICE
Southeast Region

MAR 19 1999

1 MAR 1999

Reply to:
Attn. of: SA 9-1

RECEIVED

Subject: 210.14-06: Interest Earned on School Food Service Funds

To: All State NSLP Directors

This memorandum reissues policy previously issued as Policy Memorandum 80-32, dated September 09, 1980, and Policy Memorandum 88-4, dated February 10, 1988. Any changes made to the originals are in bold.

We have received several inquiries concerning whether or not interest earned on children's payments and program reimbursements should be considered to be program income or revenues. Section 210.2, defines revenue as all monies received by or accruing to the non-profit school food service... including earnings on investments and Federal cash reimbursement. Part 210.14 further states, "Revenues received by the non-profit school food service are to be used only for the operation or improvement of such food service..." For additional information, refer to OMB Circular A-102, Attachment E, which establishes standards for federal agencies to use in administering grants to State, local, and Indian tribal governments, including school districts participating in the Child Nutrition Programs under State agency administration.

USDA funds for program reimbursement should be entered into the school food service account as soon as possible on receipt. If program reimbursement funds are held in a different account, (such as a county's general fund) before placing it into the school food service account, any interest on this USDA revenue must also be credited to the school food service account.

Should your staff have any questions about this matter, please have them contact this office.

A handwritten signature in cursive script, appearing to read "Charlie Simmons".

CHARLIE SIMMONS
Regional Director
Special Nutrition Programs



United States
Department of
Agriculture

Food and
Nutrition
Service

3101 Park
Center Drive

Alexandria, VA
22302-1500

DATE: July 13, 2001

SUBJECT: Commerical Labels

TO: State Child Nutrition Director
State Distributing Agency Director

Some changes in the Department of Agriculture (USDA) commodity program will result in school food authorities (SFAs) and other Child Nutrition (CN) program outlets receiving an increasing number of products with commercial labels in place of the USDA commodity label. Realizing that this change will affect the maintenance of separate commodity inventory and accounting records, we have been piloting a record keeping system that would eliminate the need for separation.

We are offering States the opportunity to use a single inventory record keeping system on a voluntary basis beginning with the current school year (SY 2001-2002). States who choose to use this single system are granted a waiver from 7 CFR Part §250.14(e) that requires State Distributing Agencies (SDAs) to take a physical inventory of commodities during annual reviews of recipient agencies. A waiver is also granted for 7 CFR Part §250.16(a)(2) that requires SDAs to require recipient agencies to maintain accurate and complete inventory of donated foods. SFAs and other CN program outlets in States electing the single inventory system must be provided with the information contained in this memorandum and directed to retain the information on file for audit and review purposes.

These changes in record keeping will affect both the SDAs and the State Child Nutrition Agencies. Attached is guidance on the requirements for the single inventory method.

For additional information, please contact your Regional Office or Suzanne Rigby, Branch Chief, Schools and Institutions, Food Distribution Division.

\s\

STANLEY C. GARNETT
Director
Child Nutrition Division

\s\

LES JOHNSON
Director
Food Distribution Division

Attachment

APPENDIX M (Cont'd)

Attachment

**Inventory Record Keeping System
to
Accommodate Commercial Labels on Commodities
(July 13, 2001)**

One of the USDA initiatives for the commodity program is to operate using business practices where possible. Allowing vendors that supply commodities to USDA to use commercial labels rather than USDA labels has been piloted since 1996 in the Department's household programs. The practice has demonstrated a cost savings and USDA is expanding its use into other CN programs. Some vendors already use commercial labels, additional vendors will begin commercial labeling in SY 2001-02 and by SY 2002-03, all vendors will be permitted to use commercial labels. With the loss of visual identification of commodities, it will be difficult for schools and other CN outlets to inventory commodity products separate from purchased products. States adopting the single inventory method have been granted waivers from separate commodity inventory reporting requirements.

SFAs in North Carolina and Maryland piloted the single inventory method and accounted for commodities along with purchased inventory. The pilots began January 1, 2001 on a voluntary basis. Each participating SFA and State operated with a waiver of the Part 250 requirement for a separate inventory report for commodities. A commodity became the property of the SFA when the SFA received it from the State. Both States will again operate the pilot system in SY 2001-02.

Implications and Changes with using Commercial Labels on Commodities
There are several considerations involved when implementing the new single inventory requirements.

State Level

1. There will be no "Value of Ending Commodity Inventory" figure for financial reports separate from "Value of Ending Purchased Inventory." Each State must determine if the loss of that figure will have affect on such things as State reimbursement determination, etc.
2. State DAs will no longer be required to perform inventory reconciliation when performing local school visits, nor will they need to require SFAs submit ending commodity inventories. Assessing for damaged or out-of-condition commodity at the recipient level will no longer be the State's responsibility.
3. The State must determine, on a statewide basis, the value that the SFA/CN outlet will assign to the products. This value can be the most recent commodity file value, the commodity file value for the specific delivery, full replacement cost, or a composite of the commodity file value and replacement cost. States must consider a number of factors in determining the value that will be assigned. For example, some SFAs/CN outlets receive sufficient quantities of a particular commodity and have no need to purchase an equivalent product. As a result, if the State elects to use full replacement

AN EQUAL OPPORTUNITY EMPLOYER

APPENDIX M (Cont'd)

cost, the State may need to devote substantial efforts in assisting the SFA/CN outlet in determining the value to assign.

SFAs and Other CN Outlets

1. The value of the commodity will be realized when title passes to the SFA/CN outlet. At that point, the product becomes the property of the SFA/CN outlet and is a nonprofit food service account asset.
2. Since separate inventories are no longer required, the same inventory valuation method currently used by the SFA/CN outlet for purchased products would now apply to commodity products. For example, if the SFA uses FIFO (first in-first out) for purchased products, the SFA would use FIFO for its commodity products.
3. The SFA/CN outlet will treat and safeguard its commodities just as it now does with supplies purchased with nonprofit food service account funds. As always, good inventory management and control practices must be maintained.
4. The SFA/CN outlet may use the commodities across programs as long as all income accrues to the nonprofit food service account in the same manner income currently accrues from the use of supplies purchased with nonprofit food service account funds.
5. When a loss of a commodity occurs after title has transferred, the SFA/CN outlet is required to use the same procedures currently in place for reporting purchased product losses. If the SFA/CN outlet is not obligated to report purchased product losses to the State agency, the SFA/CN outlet will no longer be responsible for reporting commodity losses. However, the SFA/CN outlet remains responsible for ensuring that all nonprofit food service resources are safeguarded and reminded that any misuse of nonprofit food service resources is subject to criminal prosecution under section 12(g) of the National School Lunch Act.
6. Commodity entitlement credit will be available to SFAs that furnish food for Nationally declared disaster feeding. The credit cannot exceed the lesser of the actual commodities supplied or the amount of the commodity received during the past 12 months.
7. Once received by the SFA/CN outlet, the State will not be involved in arranging or accounting for transfers to other agencies. Transferring of commodities may still occur, however, arrangements will be made at a local level. Since the value of the commodity has already been realized by the SFA/CN outlet, no additional entitlement will be credited. It will be the responsibility of each SFA/CN outlet to recoup the transferred product value.
8. Food safety recalls will follow the current USDA Hold and Recall procedures. As with any commercial product, can codes and establishment numbers will be used.
9. Since not required on commercial labels, the pack date will be lost. As you know, this information was the basis for "Best if Used by Dates" guidance. This guidance will no longer be made available, therefore SFAs/CN outlets should be reminded to maintain good inventory practices.

APPENDIX M (Cont'd)



United States Department of Agriculture
Food and Nutrition Service

Southeast Region

Reply to
Attn. of: SERO Policy

October 19, 2001

Subject: Policy 250.14-04 and 210.15-01: Questions and Answers for Single Inventory Recordkeeping

To: All State Directors
National School Lunch Programs (NSLP)
Food Distribution Programs (FDP)
Southeast Region

The Food and Nutrition Service issued a memo on July 13, 2001 waiving the part of §250.14(e) that requires schools and child care centers to take an annual physical inventory of commodities in storage facilities. The memo also waives the part of §250.16(a)(2) that requires them to maintain commodity inventory records. The waiver permits SDAs to allow schools and childcare centers to adopt a single inventory recordkeeping method that will account for commodities along with purchased food, and current regulatory requirements to maintain USDA commodities separate from purchased inventory will be waived. While general guidance for using this method accompanied the waiver, additional questions have arisen. The following guidance is provided in response to those questions and applies only when a State has adopted the new recordkeeping method.

1. Q. Does the single inventory recordkeeping system apply only to commodities with commercial labels?

A. No. When the school or childcare center adopts the single inventory system, it applies to all commodities regardless of whether they have commercial labels or USDA labels.

2. Q. How does the recordkeeping change affect the OMB Circular A-133 Single Audits?

A. Guidance for the OMB Circular A-133 is based on the Part 250 regulations. Since the specific regulations for maintaining a separate inventory for commodities are being changed, this will not be part of OMB audit requirements. The compliance supplement will be updated to reflect the changes.

The value of commodity expended during the past year is a required factor to determine whether the school food authority exceeds the value threshold and must have a Single Audit. Included in the compliance supplement update will be guidance for deriving the expended commodity value to be used for this purpose.

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All State NSLP, FDP Directors

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3. Q. How long is the waiver in effect?

The waiver is in effect until regulatory changes are made.

4. Q. Does the SDA continue to decide the value of the commodities to be used by the schools and child care centers?

A. Yes. The SDA must assign the value of the commodity using one of the following three methods described in §250.13(a)(5): the actual cost-per-pound data; the estimated cost-per-pound data provided by USDA; or the USDA commodity file cost as of a specified date. Most SDAs are already using one of these methods and, therefore, will not need to do anything differently.

5. Q. What basis should schools and centers use for establishing their inventory values?

A. Schools and centers are going to need to value inventory for three different situations.

- **Purchased inventory for which there is no commodity equivalent.** An example might be condiments such as catsup. It is suggested that schools and centers base the value on the net cost for that type of inventory. That value probably would be different for each school system and center in the State.
- **Commodity product for which there is no equivalent commercial product purchased by the school or center.** Examples may include pouched salmon, frozen diced chicken or prune puree, which are commodity products that schools typically do not purchase. The SDA assigns the value using one of the methods described under Question 4 and that value would be the same for all operations throughout the State.
- **Inventory of foods that are both purchased and provided as commodities.** Canned fruits and vegetables are examples. Schools and centers could base the value on the net cost assigned to the purchased products. Or they could use the SDA- determined commodity value. Or they could use an average or weighted average of the two values.

6. Q. How will the value of commodities used by food service management companies (FSMC) be determined and passed to the SFA if inventory is not kept separate?

A. The single inventory method does not change the requirements at §210.16(a)(6). This provision requires that all Federally donated foods received by the SFA and made available to the FSMC accrue only to the benefit of the SFA's nonprofit food service. The SFA should continue to use its existing method for ensuring the value of purchased product inventories and donated food inventories accrue to the benefit of the SFA's nonprofit food service account. FNS is exploring whether additional guidance on commodity value pass through is needed.

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All State NSLP, FDP Directors

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7. Q. How does a State that wishes to adopt the new inventory method proceed?

A. Properly implementing the single inventory recordkeeping system involves several State agencies. The steps leading to successful implementation are:

The State CND, SDA and State Financial Division should jointly identify all areas of State recordkeeping and procedures that will require change as a result of losing the ending commodity inventory value. Then, new procedures should be developed. The USDA Regional Office should be notified of the implementation date. State auditors should be consulted regarding the recordkeeping changes. The waiver notice will need to go to school systems and centers for them to use with local auditors. School systems and centers will need proper training on the new method as well as any adjustment to the State reporting system.

Please advise our office as to whether or not your State will implement single inventory recordkeeping for Fiscal Year 2002. If so, what is the expected date? Additionally, if not all districts are going to participate, which districts will participate? Remember, all other inventory requirements are in place until the single inventory recordkeeping has been implemented. Should you have any questions regarding this information, please contact Mike Pace in the School and Family Nutrition Section at (404) 562-7090.

CHARLIE SIMMONS
Regional Director
Special Nutrition Programs

APPENDIX M (Cont'd)



United States
Department of
Agriculture

Food and
Nutrition
Service

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Alexandria, VA
22302-1500

TO: State Distributing Agencies

FROM: Suzanne Rigby, Acting Director
Food Distribution Division

RE: Single Inventory Recordkeeping

OMB Circular A-133,
Compliance Supplement

The Compliance Supplement for the OMB Circular A-133 has been revised to provide direction for auditors when a school food authority is using the Single Inventory Recordkeeping. The revision may be found at:

http://www.whitehouse.gov/omb/circulars/a133_compliance/02toc.html.

- Under "Select Compliance Supplement Documents," select "Part 4: U.S. Department of Agriculture (USDA)."
- Open document using PDF, Word or WordPerfect.
- The instructions for auditors for Single Inventory Recordkeeping may be found on pages 4-10.553-19 through 4-10.553-21.

DRAFT

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